

Minneapolis Community Development Agency

Request for City Council Committee Action

Date: September 30, 2003

To: Council Member Goodman, Community Development Committee

Prepared by: Jerry LePage, Project Coordinator, Phone 612-673-5240

Approved by: Lee Sheehy, Executive Director and
Chuck Lutz, Deputy Executive Director _____

Subject: Preliminary Approval of Up to \$11,000,000 in Tax Exempt Multi-family Entitlement Housing Development Bonds for the Marshall River Run Housing Project

Attachment: Marshall River Run.pdf

Previous Directives: On October 27, 2000, the MCDA Board approved a Project Analysis Authorization to allow staff to analyze the Marshall River Run housing project, prepare Redevelopment and TIF Plans, and negotiate a redevelopment contract with the developer. On July 15, 2003, a public hearing was held before the Community Development Committee regarding the preliminary approval of the proposed housing revenue bonds. The CD Committee forwarded the report to the full Council without recommendation, and on July 25, 2003, the Council referred it back to Committee.

Ward: Third Ward

Neighborhood Group Notification: The Sheridan Neighborhood Organization (SNO) has been notified in writing of the application for housing revenue bonds. SNO has also reviewed this project on a number of occasions and has provided input to the developer leading to a number of design changes. On September 22nd, SNO will meet again to consider Marshall River Run, but at this point, has not endorsed this project.

Consistency with *Building A City That Works*: Addresses Goal 2: Ensure that an array of housing choices exist to meet the needs of our current residents and attract new residents to the City.

Comprehensive Plan Compliance: Policy 35: Within the constraints imposed by state and federal regulations, the City should continue to sell tax-exempt revenue bonds to provide below market rate and housing development financing.

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Equal Housing and Employment Opportunities

Zoning Code Compliance: The site is currently zoned I-1. Sherman Associates has submitted an application for an industrial overlay district that would allow the proposed development. On October 7th, the City Planning Commission (CPC) will consider the developer's application, including the overlay district, site plan review, and a conditional use permit. It is expected that CPC actions will be considered by the Zoning and Planning Committee on October 16th and by the full Council on October 24th.

Impact On MCDA Budget: (Check those that apply)

☐ No financial impact
☐ Action provides increased revenue for appropriation increase
☐ Action requires use of contingency or reserves
☒ Other financial impact: Annual bond fees will be collected when the bonds are issued.

Living Wage / Business Subsidy: NA

Job Linkage: NA

Affirmative Action Compliance: Will comply.

Recommendation: The Executive Director recommends that the City Council adopt the attached City Council Resolution granting preliminary approval of up to \$11,000,000 in Tax Exempt Multifamily Entitlement Housing Development Bonds for the Marshall River Run Housing project.

Background

In October, 2000, the MCDA Board authorized staff to proceed with the financial analysis and the redevelopment contract negotiations for a new housing development in the Sheridan neighborhood proposed by Sherman Associates and Marchant Investment. The Marshall River Run housing project is a 2.7 acre industrial site located on the 1400 block of Marshall Street NE between the Nygard Dimensions property on the south and Boone Trucking to the north (see attached **area map, Exhibit 1**).

When it was originally proposed, the River Run project involved a larger site that included the Boone Trucking and the Ace Mailing properties to the north and also proposed the development of rental and ownership units. However, the developer was not able to negotiate the purchase of these properties at a cost that the project could support. Consequently, the project was reduced in size to two properties (1424 and 1448 Marshall Street), both of which are currently under the control of the developer, and now consists of only rental units. Based on discussions with the neighborhood and with City staff, the developer increased the setback of the building from the front property line to approximately 30 feet in order to accommodate the possible future widening of Marshall Street.

At the July 15th public hearing, representatives of the Sheridan Neighborhood Organization, the St. Anthony West Neighborhood Organization, and the Above the Falls Citizen Advisory Committee testified against the Marshall River Run project based on concerns about the design of the project, the impact of over 100 rental units on the neighborhood, and the consistency of the project with the vision of the Above the Falls Plan. The Community Development Committee forwarded the report to the full Council without a recommendation regarding the preliminary approval of the housing revenue bonds, and the City Council referred the project back to the CD Committee.

Revised Development Plan

Since the July 15th public hearing, the developer has responded to concerns raised by the neighborhood and has made a number of modifications in the **revised development plan** (attached as **Exhibit 2**).

- Reduced the total number of units from 119 to 101 (a reduction from 44 to 37 DU/acre).
- Eliminated the fourth story on the rear wings of the building.
- Increased the front setback of the building from 30 to 50 feet and created a front parking bay as a traffic calming element.
- Adjusted the building orientation to create better site lines from Marshall/Broadway intersection.
- Reduced surface parking in general and removed all parking from the river side of the building.
- Shifted building to the west to eliminate impact of shadows on neighboring duplex.
- Changed location and width of public access across the site towards the river.
- Increased green space and landscape plantings.

Housing Revenue Bond Information

Sherman Associates, the general partner of the Marshall River Run Limited Partnership, has submitted an application to the MCDA for tax-exempt housing revenue bonds as its first mortgage financing, which automatically includes 4% low income housing tax credits. Based on its revised development plan with 101 units, the developer is now requesting \$11,000,000 in housing revenue bonds. The Series A bonds will be in the amount of \$10,100,000 and will be a rated bond at approximately 6% interest with a 30-year mortgage, and a credit enhancement through either Fannie Mae or Freddie Mac. The Series A bonds will be AAA rated and underwritten by Piper Jaffray. The Series B bonds will be in amount of \$900,000, which represents funds invested in the project that will be repaid with equity contributions once the project is complete.

Sherman Associates has submitted applications to Hennepin County for \$350,000 from the County's Affordable Housing Investment Fund, and \$150,000 in pollution cleanup assistance from its Environmental Response Fund. The sources and uses statement for Marshall River Run project is shown page 4.

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Sources:

Housing revenue bonds (Series A)		
Supported by project revenues	\$9,000,000	
Supported by pay-go TIF (est.)	<u>\$1,100,000</u> *	
Subtotal (Series A)	\$10,100,000	
Housing revenue bonds (Series B)	900,000	
Total bond amount	\$11,000,000	Application submitted
LIHTC syndication	1,000,000	Pending
Hennepin County AHIF	350,000	Application submitted
Hennepin County ERF	150,000	Application submitted
Deferred developer fee	618,000	Committed
General partner cash	298,241	Committed
Totals	<u>\$13,416,241</u>	

Uses:

Land assembly	\$ 1,135,000
New construction	8,563,000
Construction contingency	250,000
Construction interest	275,000
Finance costs & fees	728,280
Architect/engineering	255,751
Legal	25,000
Developer fee	1,318,000
Other soft costs	866,210
Totals	<u>\$13,416,241</u>

* The amount shown for the pay-go TIF note is an estimate. The pay-go TIF note would be an additional revenue source for payments on these bonds.

In addition to housing revenue bonds, Sherman Associates has submitted an application for tax increment financing to assist in the cost of developing this site, which will require significant pollution cleanup. Assuming that there is a financial gap, a pay-as-you-go TIF note would be issued in an amount to be determined that will be an additional revenue source for payments on these bonds. Staff is currently analyzing the developer's proforma to determine the extent of the financing gap, and based on the results of this analysis, would prepare a redevelopment project and a TIF district to support this development.

The unit composition and rent levels for the 101-unit River Run apartment building are shown on page 5. There will be 100 parking spaces provided in an underground heated ramp, with additional 24 spaces located outside the building. Resident amenities will include: a building security system; laundry facilities on each floor; individualized control of heating and air conditioning; pre-wiring for internet and satellite access; balconies for each unit; community rooms; exercise facilities; a library, bike parking and storage; and a gazebo west of the rear entrance. The circulation plan for the project will allow public

access to the site and toward the river from the neighborhood and will also accommodate future connections to public trails and bikeways along the riverfront. Also attached to this report is the building's **front elevation** (see **Exhibit 3**).

Unit Type	# Units	Sq. Ft.	Gross Mo. Rents	Affordability (% of median)
One Bedroom	5	662	719	50%
One Bedroom	6	663	785	60%
One Bedroom	17	682-713	785-822	market
Two Bedroom	4	937	1,003	30%
Two Bedroom	15	920	1,035	60%
Two Bedroom	42	920-1,050	1,035-1,355	market
Three Bedroom	<u>12</u>	1,200	1,233	30%
Total units	101			

The Marshall River Run project is in a non-impacted area, as defined by HUD in terms of levels of poverty and minority population. Based on the revised development plan, it will have 16% of its units (16) affordable at 30% of median and 5% of its units (5) affordable at 50% of median, which exceeds the minimum requirements of the City Affordable Housing policy. The project will also have approximately 21% of its units (21) affordable at 60% of median, pursuant to the Low Income Housing Tax Credit (LIHTC) requirements. The remaining units (59) will be market rate, which represent 58% of the total units in the project. Under the developer's previous development plan, 33% of the units (39 of 119) would have been market rate. The developer has also obtained a reservation for 16 project-based Section 8 units.

In summary, the Marshall River Run project fulfills a number of City housing policy goals and priorities:

- Deconcentration of affordable housing (see attached **Census Tract Map, Exhibit 4**). This is an updated map based on the 2000 census and is pending final approval by parties to the Hollman Decree.
- Promotion of economic integration (i.e. a mixed-income project including units at <30% MMI).
- Creation of larger housing units suitable for families (3-bedrooms).
- Cleanup of a contaminated industrial site in the Above the Falls area and its conversion to housing.
- Increase the supply of housing by developing medium to high-density new housing on major transportation and transit corridors and near commercial revitalization projects or neighborhood amenities (e.g. sites such as Growth Centers, Major Housing Sites, and Commercial Corridors).

In addition, this project results in substantial leverage in terms the ratio of private investment to CPED funds (10.7:1) and the ratio of total project funding to CPED funds (11.2:1), and thus is a very efficient use of City resources.

Status of 2003 HRB Entitlement

2003 MCDA Entitlement Authority	\$33,867,000
East Phillips Commons	100,000
Heritage Park Phase II	393,000
Marshall River Run project	<u>11,000,000</u>
Amount Uncommitted	\$22,272,700

In terms of the uncommitted HRB entitlement balance, there are three prospective projects that staff is currently working on that we anticipate will utilize 2003 entitlement bond authority. However, if the Marshall River Run project is not allocated bonds, it is likely that there will not be enough projects to fully utilize the 2003 entitlement authority, and any unused authority will revert back to the State.

Bond Counsel	Underwriter	Council Member Informed
Best & Flanagan	US Bancorp Piper Jaffray	Yes, Ward 3.

Neighborhood Review

Sherman Associates has attended four meetings of the Sheridan Neighborhood Organization (SNO) in the past seven months to present and explain its plans for the Marshall River Run project and to respond to neighborhood input. It also met with a task force appointed by SNO for detailed discussions regarding various planning and design issues, and has incorporated many of the suggestions into its plan. The developer has also presented the River Run plans to the Upper River TAC, the Above the Falls Citizen Advisory Committee (ATFCAC), and to the Mississippi East Neighborhood Development Corporation (MEND), a multi-neighborhood group consisting of the Bottineau, Sheridan, and St. Anthony West neighborhoods.

Following the July 15th public hearing, Sherman Associates and Marchant Investment attempted to address the additional concerns raised by neighborhood and community representatives by making further changes in its development plan, as described earlier in this report. On September 22nd, SNO will meet again to consider the revised Marshall River Run plan but, at this point, has not endorsed this project.

At the time this report was written, a number of letters were received on the Marshall River Run project and the proposed housing revenue bond financing, and these **comments** attached as **Exhibit 5**.

Zoning/Regulatory Approvals

On October 7th, the City Planning Commission (CPC) will consider the developer's application, including the overlay district, site plan review, and a conditional use permit.

It is expected that CPC actions will be considered by the Zoning and Planning Committee on October 16th and by the full Council on October 24th.

Project Timetable/Future Actions

Assuming Council action on the preliminary approval of the proposed housing revenue bonds, staff would complete its financial analysis of this project and proceed with the preparation of a Redevelopment Plan and a TIF Plan and the negotiation of the business terms of the redevelopment contract. Staff would bring back a report on the Marshall River Run project to the City Council and the MCDA Board later this year for the approval of these Plans and the redevelopment contract business terms, and the final approval of the housing revenue bonds. The developer hopes to close on this project and start construction next spring.

RESOLUTION NO. _____

Giving preliminary approval to the issuance of tax-exempt multifamily housing revenue bonds in one or more series under Minnesota Statutes, Chapter 462C for the purpose of financing a housing program consisting of the acquisition and construction of a multifamily rental housing development for the benefit of Marshall River Run Limited Partnership.

WHEREAS, the City of Minneapolis, Minnesota (the “City”) is authorized, pursuant to Minnesota Statutes, Chapter 462C, as amended (the “Act”) to develop and administer programs to finance one or more multifamily housing developments within its boundaries; and

WHEREAS, Section 462C.07 of the Act authorizes the City to issue and sell revenue bonds or obligations to finance programs for the multifamily housing developments; and

WHEREAS, representatives of Marshall River Run Limited Partnership, a Minnesota limited partnership (the “Developer”) has requested that the City adopt a multifamily housing development program (the “Program”) to provide for the issuance of up to \$11,000,000 of its tax-exempt multifamily housing revenue bonds, in one or more series (the “Bonds”) for the purpose of loaning the proceeds thereof to the Developer to finance the acquisition and construction by the Developer of a 101-unit multifamily rental housing development to be located on the west side of Marshall Street, N.E. on the 1400 block in the City (the “Project”); and

WHEREAS, the Developer has paid and expects to pay certain expenditures (the “Reimbursement Expenditures”) in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis and certain of the proceeds of the Bonds will be used to reimburse the Reimbursement Expenditures;

WHEREAS, the Community Development Committee of the Minneapolis City Council, on behalf of the City held a public hearing on the Program and proposed issuance of the Bonds after at least 15 days published notice hereof and after submission of the Program to the Metropolitan Council for review and comment; and

WHEREAS, the Council has been advised by U.S. Bancorp Piper Jaffray Inc., representing the Developer, that on the basis of information available to them, the Project is economically feasible and the Bonds could be successfully issued and sold; and

WHEREAS, the City has been advised by the Developer that conventional commercial financing is available to pay the capital costs of the Project only on a limited basis and at such high costs of borrowing that the scope of the Project and the economic feasibility of its operations would be significantly affected; and

WHEREAS, the City shall not be liable on the Bonds, and the Bonds shall not be a debt of the City within the meaning of any state constitutional provision or statutory limitation, and

will not constitute or give rise to a charge against the general credit or taxing power of the City or a pecuniary liability of the city, nor shall the Bonds be payable out of any funds or properties other than those provided as security therefor;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL FOR THE CITY OF MINNEAPOLIS:

That the Program is hereby approved and adopted by the City.

Be It Further Resolved that the issuance of the Bonds pursuant to the Program in a principal amount not to exceed \$11,000,000 is preliminarily approved.

Be It Further Resolved that the City hereby reserves \$11,000,000 of its 2003 housing revenue bond entitlement authority for the financing of the Project.

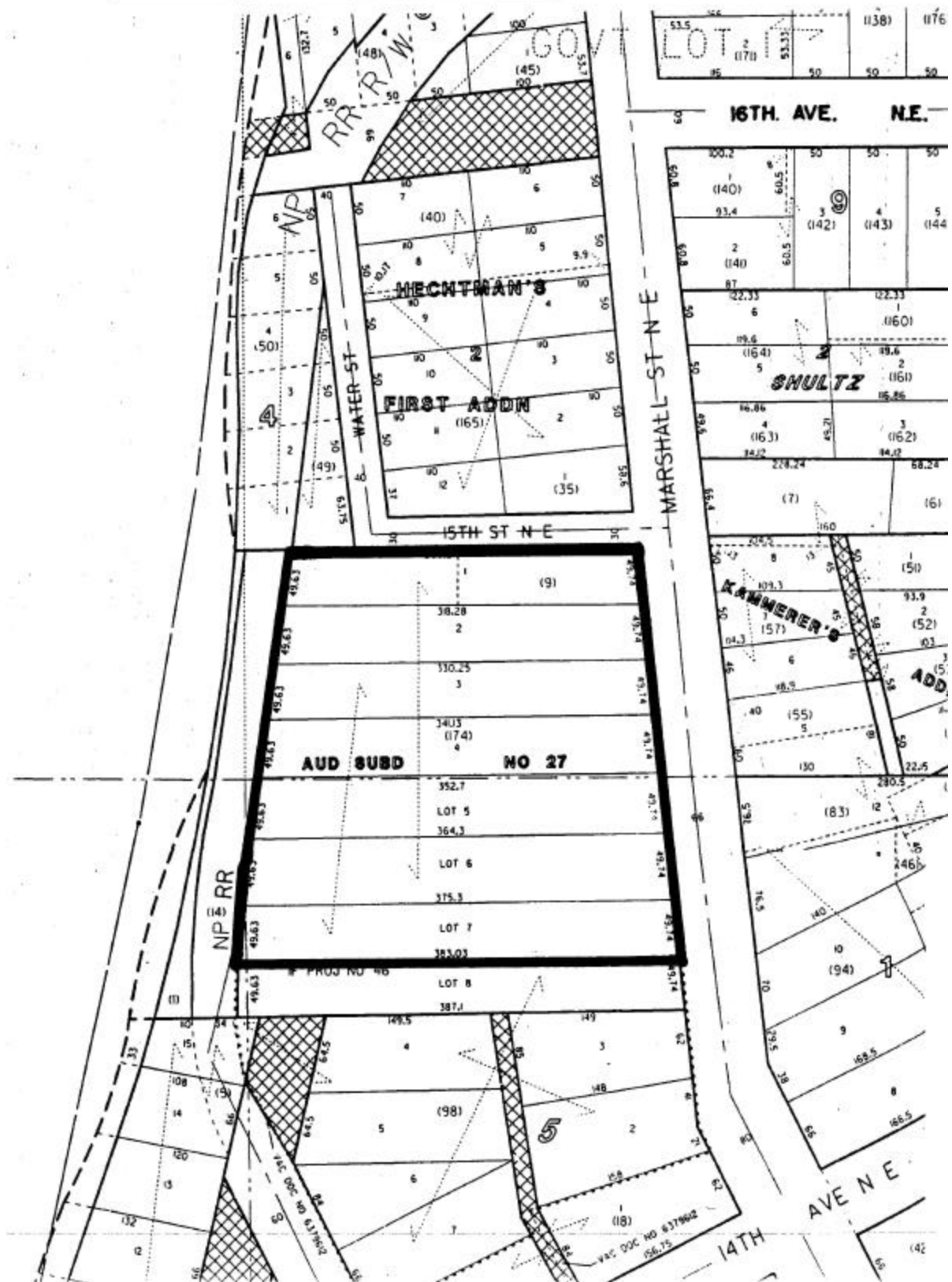
Be It Further Resolved that the City hereby makes this declaration for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations.

Be It Further Resolved that the City hereby declares its official intent to use proceeds of indebtedness to reimburse the Developer for Reimbursement Expenditures, including those expenditures made sixty days prior to adoption of this Resolution.

Be It Further Resolved that the foregoing preliminary approval of the issuance of Bonds shall be subject to final determination by the City of terms and conditions and shall not constitute an irrevocable commitment on the part of the City to issue the Bonds.

Be It Further Resolved that the staff of the Minneapolis Community Planning and Economic Development Department is hereby authorized, in cooperation with bond counsel to take all steps necessary and desirable to proceed to develop the Program and financing therefor.

MARSHALL RIVER RUN PROJECT SITE



C-2

C-2



Marshall Street Facade

**RIVER RUN MULTI-FAMILY
119 APARTMENT UNIT BUILDING**



City of Minneapolis

2000 Census Tracts and Blocks

